

August 6, 2014

James Rajotte, Chair
Standing Committee on Finance
Committees and Legislative Services Directorate
House of Commons
131 Queen Street, 6th Floor
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Via email: finapbc-cpb@parl.gc.ca

Re: CWTA submission to the House of Commons Standing Committee on Finance's 2014 pre-budget consultations

1. The Canadian Wireless Telecommunications Association is the recognized authority on wireless issues, developments and trends in Canada. It represents wireless service providers as well as companies that develop and produce products and services for the industry, including handset and equipment manufacturers, content and application creators and business-to-business service providers. CWTA is pleased to file its comments with respect to the above-noted consultation.
2. CWTA's membership includes a diverse range of competitors that all support the same goal: more Canadian consumers and businesses using wireless networks to do more things. We stand for the growth and expansion of Canada's digital infrastructure, and we advocate all measures that will assist in bringing the fastest, most robust wireless networks to as many Canadian consumers and businesses as possible, including access to more spectrum and consistent rules for deploying network infrastructure.
3. The need to constantly expand and enhance wireless networks is driven by the unparalleled demand for mobile data services from Canadians. Over the past four years, the percentage of Canadian mobile subscribers using data-hungry smartphones has more than doubled, from 36% in 2011 to 73% in 2014.¹ More than 3.5 million more Canadians also connected to wireless networks during that time, and the average connected device now uses nearly one gigabyte of data per month.²
4. The cumulative effect of more Canadians using more smartphones to accomplish more tasks is massive growth in overall data usage. Over the next five years, Canadian mobile data traffic is projected to grow by 900%.³ After years of record investments to meet the demand created by new smartphones, apps and video content, Canada's wireless industry now has to prepare its networks to handle nine times the current traffic volumes within the next five years. Indeed, this is why it is not an overstatement to call mobile service growth unparalleled; no other sector of the economy must consistently meet similar levels of demand.
5. Wireless technology constantly changes not only the way we communicate, but also the way we work, inform, buy, sell, navigate, collaborate and entertain. More than 20% of Canadian households now exclusively use cell

¹ J.D. Power & Associates: Canadian Wireless Total Ownership Experience Study.

² Cisco: VNI Mobile Forecast Highlights 2013 – 2018.

³ Cisco.

phones for telephone service – a number that jumps to 60% for households where all members are under 35 years of age.⁴ Approximately 70% of 9-1-1 emergency calls are made from wireless devices.⁵ Roughly 20% of Canadians watch TV on their smartphones⁶ and more than half of Canadians have used a mobile device for an online financial transaction.⁷

6. This multi-faceted demand for mobile data services directly reflects the importance of wireless technology to every aspect of the Canadian economy. In 2012, the wireless industry generated an overall economic benefit of \$39.3 billion to the Canadian gross domestic product, including \$21 billion in direct GDP.⁸
7. The ubiquitous availability of advanced wireless services increasingly benefits virtually all Canadian businesses and has given rise to new economic subsectors. For instance, Canada's app economy currently generates an estimated \$1.7 billion in annual revenues, and is projected to surpass \$5 billion in annual revenues by 2019.⁹ It is also estimated that every four jobs in the app economy results in one additional job in the Canadian economy overall.
8. It is not surprising that a list of budget priorities is very relevant to the wireless industry, specifically the consultation themes related to competitiveness through innovation and commercialization, and maximizing quality jobs for Canadians. As will be discussed below, the industry's consistent investment required to meet network traffic demand has inherently led to significant research and innovation, competitiveness and job creation.
9. The industry's top priority is to continue expanding and enhancing its wireless networks to respond to the exponential growth in subscriber demand. Achieving this goal requires more spectrum and more antenna sites, and benefits from the removal of policies and regulatory barriers to network investment.
10. Specifically, Canadian wireless service providers continue to pay among the highest spectrum licence fees in the world – 40 times greater than what are paid by wireless service providers in the United States, by comparison. Removing such barriers would free up additional investment capital to ensure the network innovation and expansion required for the industry to continue to contribute to the Canadian economy to the greatest extent possible.

The competitive wireless industry is leader in research, development, innovation and commercialization

11. Canada boasts the second-most facilities-based wireless service providers among developed countries¹⁰, with each provider competing for data-hungry subscribers. And Canada is a world leader in LTE – the fastest network technology commercially-available in the world. Canada and the United States currently combine to serve an astounding 45% of all global LTE connections.¹¹ Canada also ranks as having the sixth-fastest mobile

⁴ Statistics Canada: Residential Telephone Service Survey, 2013.

⁵ CRTC: *A Report on Matters Related to Emergency 9-1-1 Services*.

⁶ CRTC: *Communications Monitoring Report 2013*.

⁷ PayPal Canada: *The People Economy*, July 2014.

⁸ Nordicity: *The Benefit of the Wireless Telecommunications Industry to the Canadian Economy in 2012*.

⁹ ICTC: *The Application of Everything*, 2014.

¹⁰ CTIA: Comments to the FCC *In the Matter of Wireless Telecommunications Bureau Seeks Comment on the State of Mobile Wireless Competition*, 2013.

¹¹ *4G Americas Reports 300 LTE Networks Worldwide*, June 2014.

network connection speeds worldwide.¹² And a recent study identified mobile app response in Canada as being the fastest in the world, 20% faster than in the United States.¹³

12. Ensuring Canadian subscribers consistently have access to world-leading networks comes at world-leading costs. In 2012, Canada's wireless industry's per-subscriber capital investment was third-highest in the OECD, at \$98 per subscriber. This total is nearly double the \$53 per subscriber investment averaged by all OECD countries combined.¹⁴ Total Canadian capital investment in 2012 was \$2.56 billion, marking the fourth-consecutive year the wireless industry invested more than \$2 billion in capital expenditures.¹⁵
13. Total industry capital investment since 1987 is now approaching \$50 billion. These investments result in increased network speeds and capacity, which enables more Canadians to use more devices to do more things. The ongoing need for network upgrades is why it is increasingly important that federal government policies and regulations do not act as barriers to investment.

The wireless industry creates high-paying jobs for Canadians

14. In 2012, the wireless industry accounted for more than 270,000 full-time equivalent jobs in Canada, including more than 56,000 direct FTEs, more than 105,000 support FTEs and more than 111,000 indirect FTEs. The spinoff effect of the wireless industry results in roughly an additional 28,000 jobs, meaning the industry creates or supports more than 300,000 FTEs overall.¹⁶ The average salary of a job in the wireless sector is typically more than 30% higher than the national average.
15. As already mentioned, the presence of a successful wireless industry has spawned new economic sectors in Canada. For example, an estimated 64,100 jobs have been created in Canada's apps economy to date, and 110,000 Canadians are projected to be employed in the apps economy by 2019.¹⁷ But ubiquitous wireless broadband service enables significant productivity and innovation gains in virtually every aspect of the Canadian economy, resulting in additional, high-quality jobs for Canadians.

Regulatory barriers to network investment should be eliminated

16. Canada's wireless service providers pay among the highest spectrum licence fees in the world. For the 2012-2013 licence year, wireless service providers paid \$178.7 million in spectrum licence fees, which does not include payments for auctioned spectrum in its original licence term. By comparison, wireless service providers in the United States paid \$54.6 million in spectrum licence fees in 2013. American spectrum licence fee payments are the equivalent of \$0.16 per subscriber, 40-times less than the equivalent \$6.48 per subscriber paid by Canadian wireless service providers.
17. When including the value of auctioned spectrum – AWS spectrum auctioned in 2008 for \$4.3 billion for a 10-year licence and 700 MHz spectrum auctioned in 2014 for \$5.3 billion for a 20-year licence – annualized over

¹² Akamai's State of the Internet, Q1 2014.

¹³ Crittercism, *Mobile Experience Benchmarking*.

¹⁴ Bank of America Merrill Lynch Global Wireless Matrix.

¹⁵ Nordicity.

¹⁶ Nordicity.

¹⁷ ICTC.

their licence terms, the Government benefits from the equivalent of \$867.7 million per year paid by the wireless industry for the right to use wireless spectrum.

18. By comparison, in the 2014 budget the Government committed \$305 million in funding over five years to extend and enhance rural broadband service. During those five years, the Government will collect roughly \$900 million in direct spectrum licence fees, and benefit from the equivalent of \$3.4 billion in spectrum auction revenues.
19. While auctioned spectrum values are set through a competitive bidding process, annual licence fees are established, and can therefore be reduced, by the Government. CWTA respectfully submits that the pre-budget report for the 2015 federal budget should include a recommendation that the Government should set out a time-table for bringing existing administrative spectrum licence fees paid by Canada's wireless carriers into line with the fees paid by wireless carriers in other G7 countries.
20. For example, if a US-style licence fee model were employed, Canadian service providers would pay roughly \$4.5 million per year, not the \$178 million they currently pay. Such a regime would free up an additional \$174 million per year – more than \$1 billion every six years – that could be invested in network expansion and enhancements.

Network investment should be stimulated through temporary changes to the Income Tax Regulations

21. Wireless service providers are in the process of expanding and upgrading their networks with recently acquired spectrum, and are preparing for additional spectrum auctions taking place next year. Putting this newly-acquired spectrum to use will require a wave of increased capital investment to build and extend wireless broadband networks, and buy new hardware and software to power those networks.
22. Under the Income Tax Regulations there are currently several classes of depreciable assets that relate to telecom network equipment, including broadband networks, each with different capital cost allowance rates:
 - Class 8: radiocommunication equipment (CCA rate is 20%)
 - Class 42: fibre optics (CCA rate is 12%)
 - Class 46: data network infrastructure equipment and systems software (CCA rate is 30%)
23. To coincide with these investment cycles in the coming years, CWTA recommends that Budget 2015 include a temporary (24-36 month) Accelerated Capital Cost Allowance for these classes of assets: from current rates to 50% for capital investments in most areas, and 100% in “underserved” areas – as identified by Industry Canada's *Connecting Canadians* broadband initiative.

Conclusion

24. Canada's wireless industry contributes significantly to national innovation and job creation, and will continue to do so as wireless service providers make world-leading investments to meet the world-leading demand of Canadian subscribers. The wireless industry generates more than 300,000 jobs; historical industry investment is now approaching \$50 billion; and the industry contributes the equivalent of more than \$850 million to Government revenues each year, merely for the right to use spectrum.

25. The Government can facilitate the industry's economic contributions by ensuring regulatory and policy barriers to investment are eliminated. Specifically, CWTA respectfully submits that the pre-budget report for the 2015 federal budget include a recommendation that the Government should set out a time-table for bringing Canada's disproportionately high administrative spectrum licence fees paid by Canada's wireless carriers into line with the fees paid by wireless carriers in other G7 countries. The budget should also include a temporary change (coinciding with the Government's *Connecting Canadians* broadband initiative) to ACCA rates for classes of depreciable assets that relate to telecommunications equipment.
26. CWTA appreciates the opportunity to share its views as part of this important process.

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